

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of York's (the "County's") comprehensive annual financial report presents management's discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter on pages A-1 through A-12 at the front of this report and the County's basic financial statements, which begin on page D-2. Comparative information on the government-wide basis will be presented when such information is available.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities as of June 30, 2003 by \$113,861,066. Of this amount, \$52,717,743 may be used to meet the County's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$4,465,740. Nearly half of this increase is attributable to growth in both the residential and commercial tax bases which resulted in increased real and personal property taxes as well as increases in the local sales and use tax and business license tax collections.
- As of June 30, 2003, the County's governmental funds reported combined ending fund balances of \$45,114,941. Forty-two percent of this total amount, \$18.9 million is available for spending at the government's discretion.
- As of June 30, 2003, unreserved fund balance for the General Fund was \$16,036,827, or 23% of total general fund expenditures.
- The County's total debt outstanding at June 30, 2003 was \$65,551,279. The key factor in this increase was the issuance of \$7,715,000 in general obligation bonds for the renovation of Bruton High School.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report consists of three (3) sections: introductory, financial and statistical. The financial section includes the basic financial statements consisting of three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

For over two decades the primary focus of local government financial reporting has been summarized fund-type information on a current financial resources basis. This approach has been modified and the County's financial statements now present two kinds of statements, each with a different perspective of the County's finances. The new presentation focuses on both the County as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the County's overall financial status. The fund financial statements focus on the separate parts of the County government and report on the County's operations in greater detail than the government-wide financial statements. Both the government-wide and fund perspectives allow the user to focus on relevant issues, broaden the basis of comparison and enhance the County's accountability.

Government-wide Statements - The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, in a manner similar to a private-sector business. One of the most frequently asked questions about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all of the assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and the changes in them. One can think of the County's net assets - the difference between assets and liabilities - as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors will need to be considered, such as changes in the County property tax base, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:

- Governmental activities - Most of the County's basic services are reported here, including general government, judicial services, public safety, environmental and development services, finance and planning, education, human services, general services, and community services. Property taxes, other local taxes, and state and federal grants finance most of these activities.
- Business-type activities - The County charges a fee to customers to help it cover all or most of the cost of certain services it provides. The County's two Sanitary Districts, water enterprise, solid waste, water and sewer utilities and Yorktown revitalization operations are reported here.

- Component units - The County includes two separate legal entities in its report - the York County School Division and the York County Industrial Development Authority. Although legally separate, the "component units" are important because the County is financially accountable for them and provides operating and capital funding.

The government-wide financial statements can be found on pages D-2 through D-4 of this report.

Fund Financial Statements - Traditional users of government financial statements will find the fund statement presentation more familiar, although the focus is only on the County's most significant funds. The fund financial statements provide more information about the County's most significant funds - not the County as a whole. The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The County has three kinds of funds:

- Governmental funds - Most of the County's basic services are reported in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out; and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the future to finance the County's programs. Because this information does not address the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between the fund financial statements and the Government-wide financial statements.

The basic governmental fund financial statements can be found on pages E-1 through E-4 of this report.

The County maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general, education debt service and County capital projects fund, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements.

- Proprietary funds - Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

In fact, the County's enterprise funds (one type of proprietary fund) are its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flow. The County maintains seven individual enterprise funds. Information is presented separately in the proprietary fund statement of net assets, the proprietary fund statement of revenues, expenses and changes in fund net assets and the proprietary fund statement of cash flows for Sanitary District No. 2, Solid Waste, Sewer Utility and Yorktown Revitalization funds, all of which are considered to be major funds. Data for the other three enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements.

The basic proprietary fund financial statements can be found on pages E-6 through E-9 of this report.

The County uses one internal service fund (the other type of proprietary fund) to report activities that provide supplies and services for the County's other programs and activities. This fund provides for the accumulation of money to replace capital equipment and maintenance services for the County's vehicle fleet. The internal service fund is presented as a separate column in the proprietary fund financial statements.

The basic internal service fund financial statements can be found on pages E-6 through E-9 of this report.

- Fiduciary funds - All of the County's fiduciary activities are reported in separate agency fund statements of assets and liabilities and changes in assets and liabilities. The County excludes these activities from the County's government-wide statements because the County cannot use these assets to finance its operations. Agency funds are County custodial funds used to provide accountability of client monies for which the County is custodian.

The Statement of Assets and Liabilities - Agency Funds can be found on page E-11 of this report. Individual fund data for the agency funds is provided in the form of combining statements.

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages F-1 through F-40 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's General Fund budget and progress in funding its obligation to provide pension benefits to its employees and contributions for the single-employer defined benefit pension plan of the School Board. Required supplementary information can be found beginning on page G-2 of this report.

The combining statements for nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budget and defined benefit pension plans. Combining statements can be found on pages H-2 through J-6 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Statement of Net Assets June 30, 2003

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 68,028,879	\$ 11,415,394	\$ 79,444,273
Capital assets	41,241,313	80,524,373	121,765,686
Total assets	<u>\$ 109,270,192</u>	<u>\$ 91,939,767</u>	<u>\$ 201,209,959</u>
Current and other liabilities	\$ 20,295,162	\$ 1,502,452	\$ 21,797,614
Long-term liabilities	54,095,900	11,455,379	65,551,279
Total liabilities	<u>74,391,062</u>	<u>12,957,831</u>	<u>87,348,893</u>
Net assets:			
Invested in capital assets, net of related debt	(9,963,125)	69,295,243	59,332,118
Restricted net assets	1,329,505	481,700	1,811,205
Unrestricted net assets	43,512,750	9,204,993	52,717,743
Total net assets	<u>34,879,130</u>	<u>78,981,936</u>	<u>113,861,066</u>
Total liabilities and net assets	<u>\$ 109,270,192</u>	<u>\$ 91,939,767</u>	<u>\$ 201,209,959</u>

The County's combined net assets (which is the County's bottom line) total \$113,861,066, excluding the discretely presented component units, of which approximately 1.59% represents resources that are subject to external restrictions. Restrictions do not significantly affect the availability of fund resources for future use. The largest portion of the County's net assets (52.11%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to citizens and consequently are not available for future spending. The County's unrestricted net assets - the part of net assets that can be used to finance day-to-day operations were \$52.7 million.

Summary of Changes in Net Assets
Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 2,256,654	\$10,846,524	\$ 13,103,178
Operating grants and contributions	9,353,332	-	9,353,332
Capital grants and contributions	50,000	3,270,704	3,320,704
General revenues:			
Property taxes	57,677,520	-	57,677,520
Other taxes	18,863,279	-	18,863,279
Unrestricted investment earnings	649,878	140,400	790,278
Miscellaneous	672,757	38,206	710,963
Total revenues	<u>89,523,420</u>	<u>14,295,834</u>	<u>103,819,254</u>
Expenses:			
Governmental activities:			
General government	2,296,066	-	2,296,066
Judicial services	3,212,652	-	3,212,652
Public safety	15,408,525	-	15,408,525
Environmental and development services	2,541,461	-	2,541,461
Finance and planning	6,648,862	-	6,648,862
Education	40,141,165	-	40,141,165
Human services	6,478,473	-	6,478,473
General services	4,538,973	-	4,538,973
Community services	3,014,739	-	3,014,739
Interest and fiscal charges on noncurrent debt	2,564,368	-	2,564,368
Business-type activities:			
Sanitary District No. 2	-	451,938	451,938
Solid Waste	-	3,999,337	3,999,337
Sewer Utility	-	5,130,185	5,130,185
Yorktown revitalization	-	36,444	36,444
Nonmajor enterprise funds	-	2,890,326	2,890,326
Total expenses	<u>86,845,284</u>	<u>12,508,230</u>	<u>99,353,514</u>
Change in net assets, before transfers	2,678,136	1,787,604	4,465,740
Transfers	<u>(2,384,634)</u>	<u>2,384,634</u>	<u>-</u>
Increase in net assets	293,502	4,172,238	4,465,740
Net assets, beginning - as restated	34,585,628	74,809,698	109,395,326
Net assets, ending	<u>\$ 34,879,130</u>	<u>\$78,981,936</u>	<u>\$113,861,066</u>

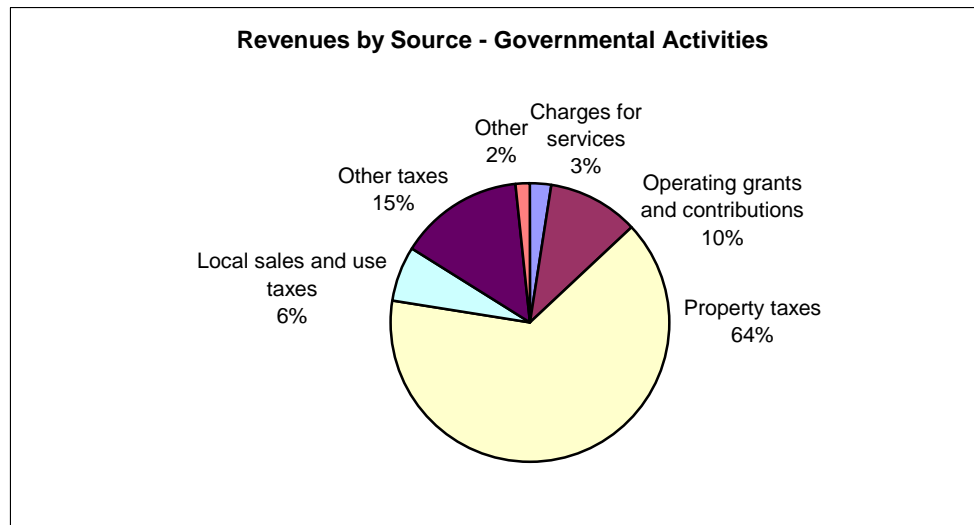
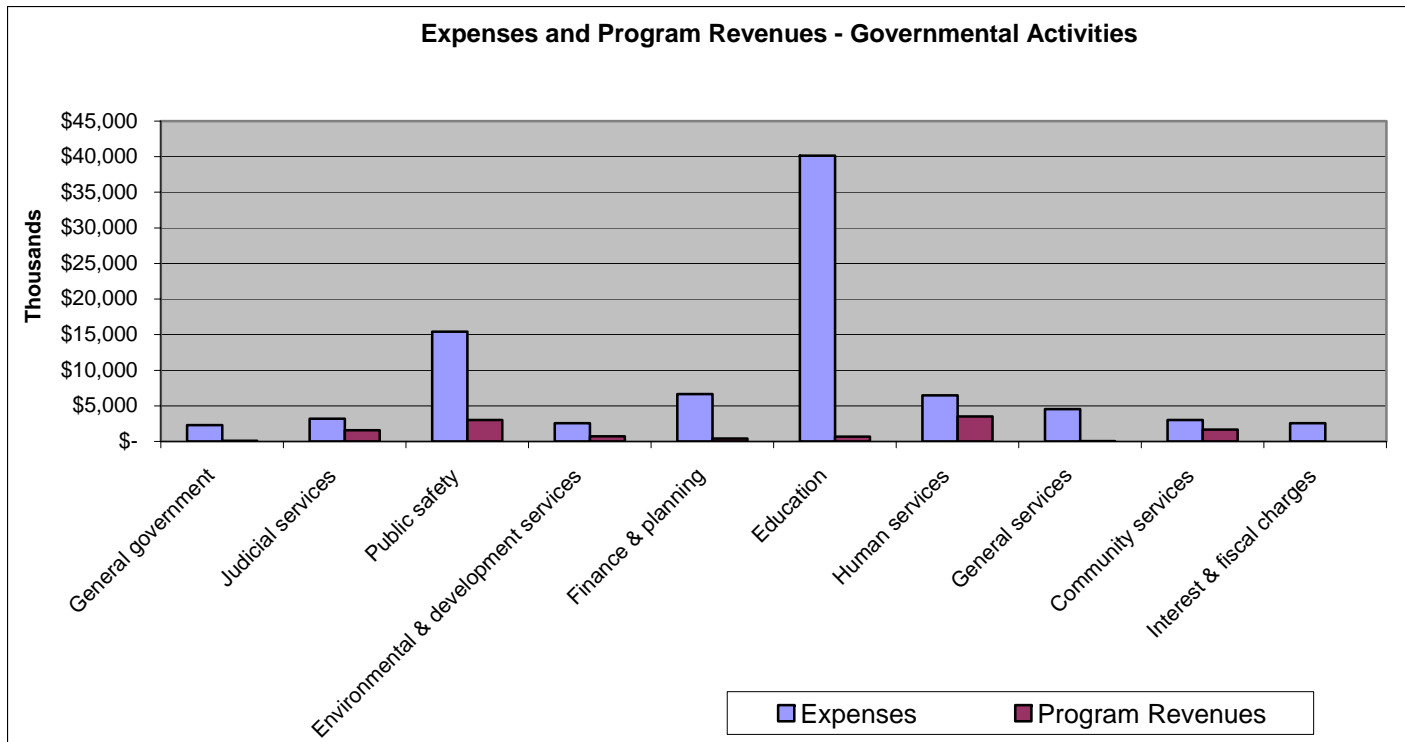
Governmental Activities - For the fiscal year ended June 30, 2003, revenues from governmental activities totaled \$87,138,786. Real estate tax revenues, the County's largest revenue source, reflecting the accrual of the last half of calendar year 2002 and the first half of calendar year 2003 real property tax billing, were \$40,149,465. The County's assessed real property tax base for calendar year 2003 was \$4,716,213,302.

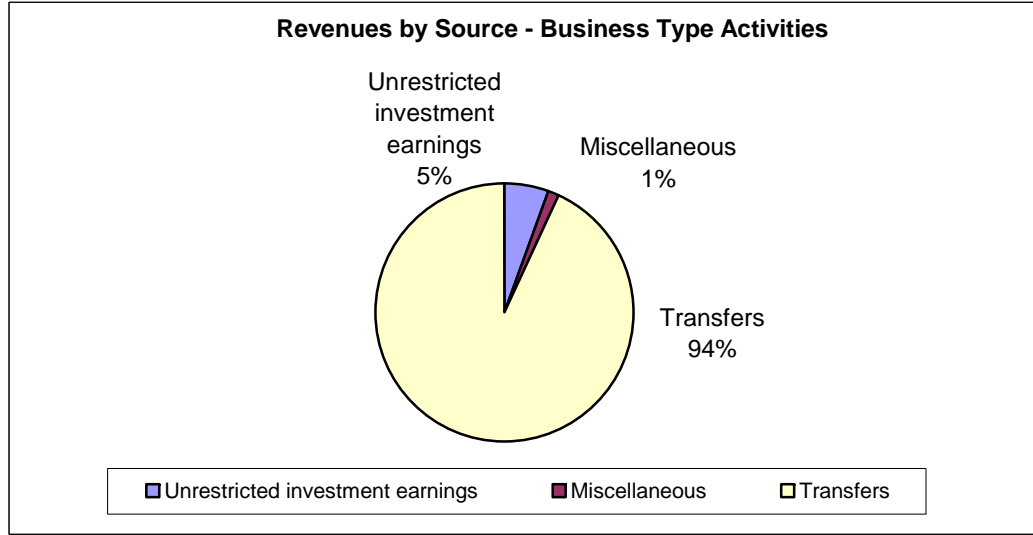
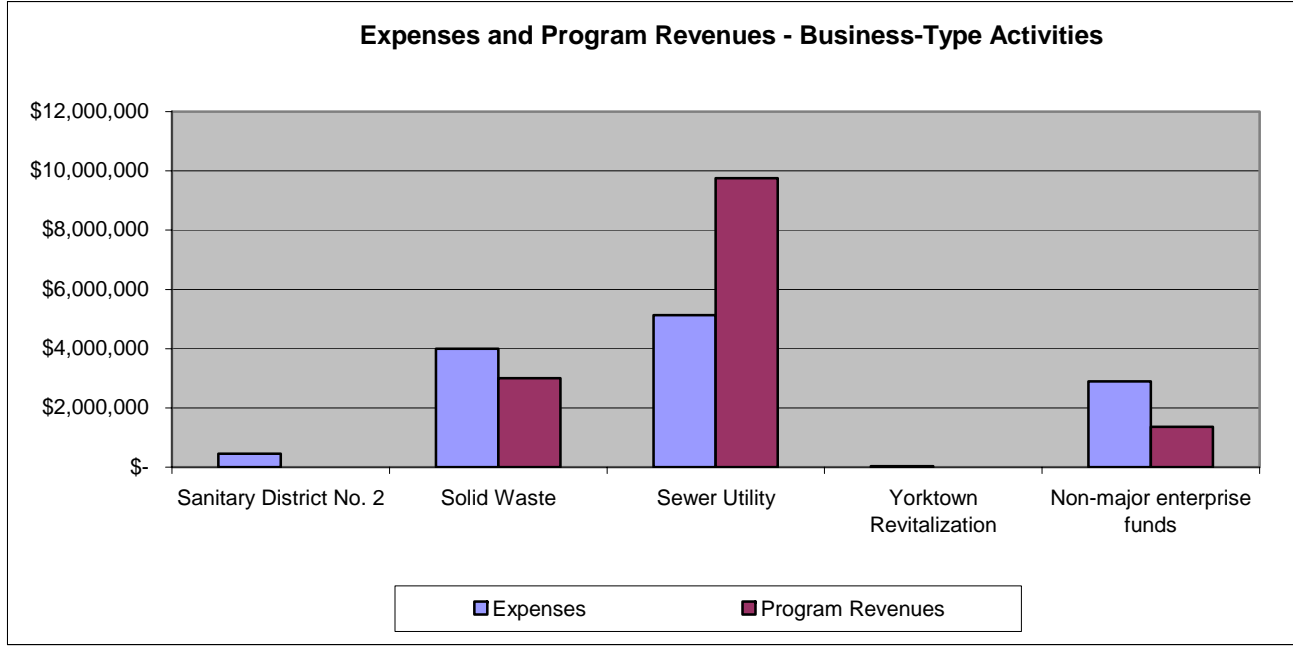
In fiscal year 2003, the County reported current year collections of \$13,490,037 in personal property taxes, the County's second largest revenue source, and received reimbursement from the Commonwealth of Virginia of \$3,447,991. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was approximately 70% of most taxpayer's payments.

For the fiscal year ended June 30, 2003, expenses for governmental activities totaled \$86,845,284, including payments of \$37,698,293 to the component unit School Board and \$662,300 to the component unit Industrial Development Authority.

Business-Type Activities - Business-type activities increased the County's net assets, before transfers, by \$1,787,604 accounting for 40.03% of the total growth in the County's net assets. The key element of this increase is charges for services, which comprised 75.88% of revenues before transfers. Expenses for contractual services were approximately 33.75% of the total. The County continues to supplement the Solid Waste Fund through transfers from the General Fund to support the County's curbside recycling program.

Financial Analysis Of The County's Funds - As the County completed the year, the net assets reflect a balance of \$113,861,066. This reflects a \$4,465,740 increase in net assets from June 30, 2002.

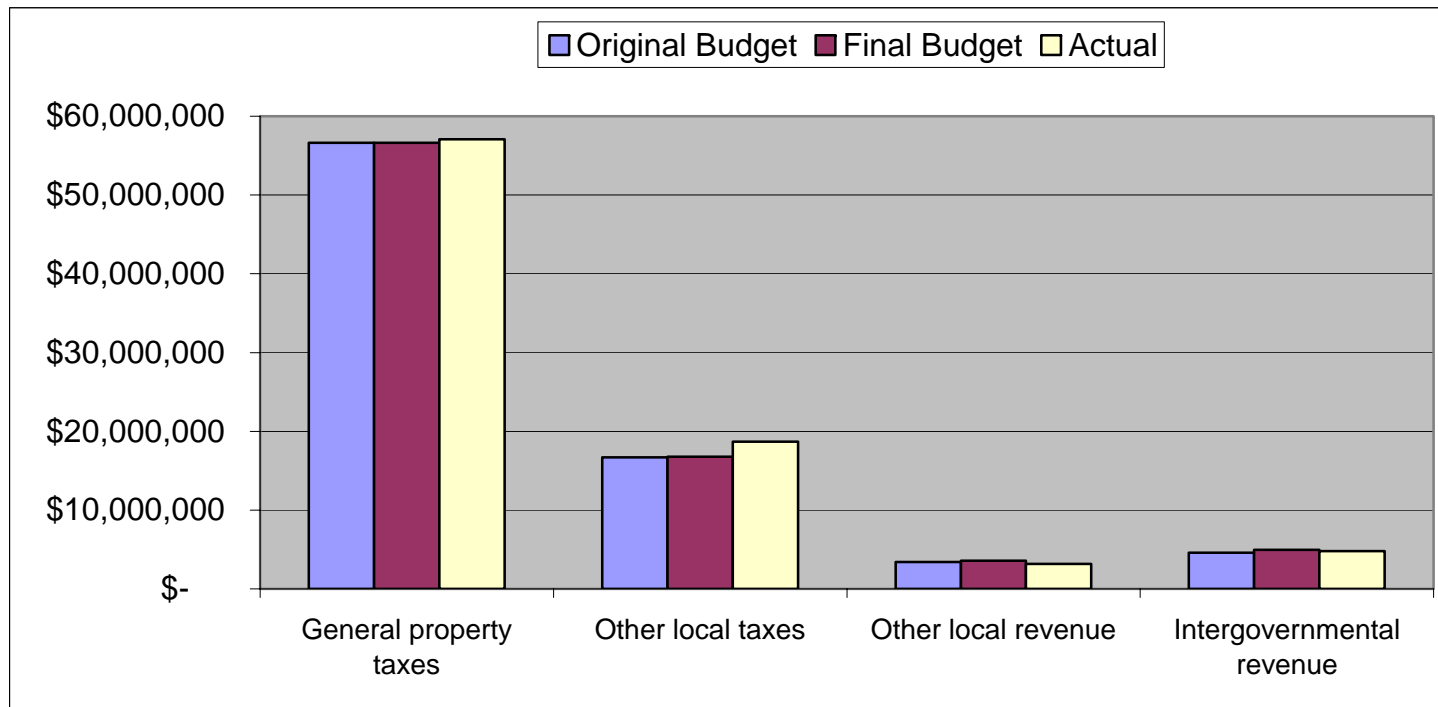




GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the Board of Supervisors approved various budget revisions. The following chart shows the original approved budget, the revised budget at the end of the fiscal year and the actual amounts for both revenues and expenditures in the general fund.

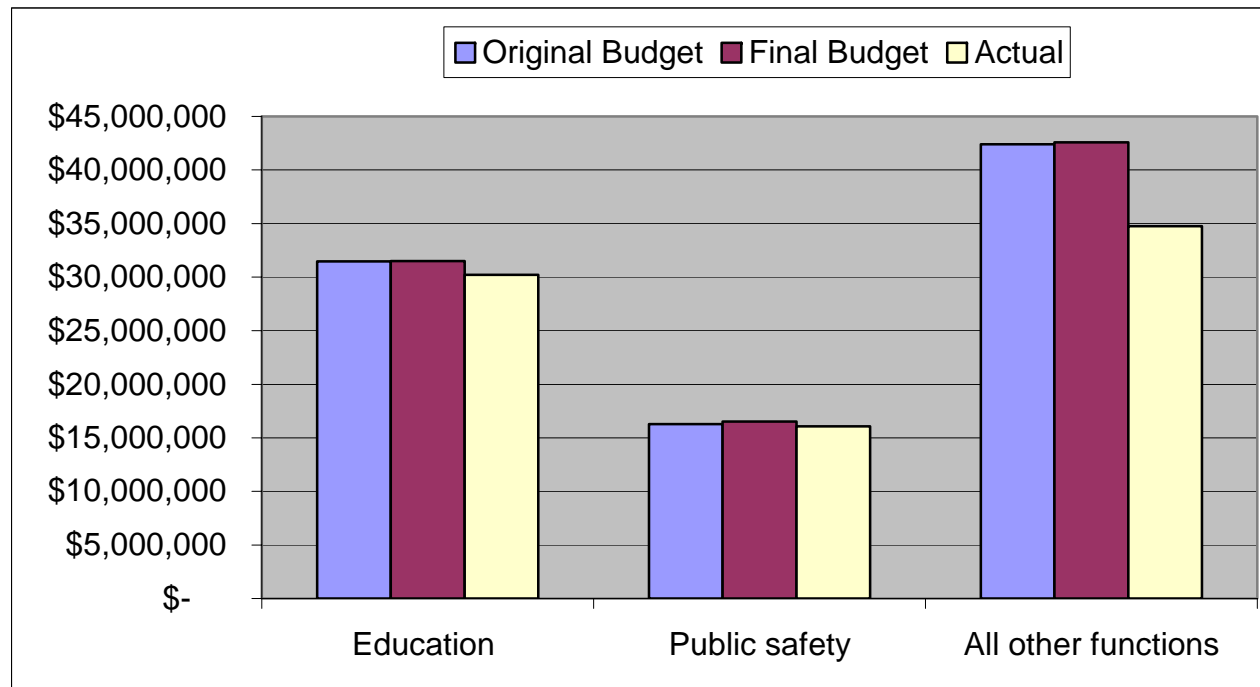
General Fund Revenue Comparison of Budget to Actual



Other local taxes such as Sales and Use Taxes, Business License Taxes, Restaurant Food Taxes, and motor vehicle licenses show moderate growth resulting in an increase of approximately \$1,941,794 or 11.58%. Use of money and property shows a sharp decrease due to the decline of interest rates on County investments. Other local revenue increased approximately 9.98 % due to an increase in local fines, workers' compensation dividends, recovered costs and court costs.

Revenue from the Federal government increased by approximately 46.77% as a result of funding received for several new grants. Due to the state's fiscal crisis non-categorical aid to the County was cut by 32.69%, and categorical aid, including payments to constitutional officers and state grants were reduced by 5.84%, for an overall reduction in state funding of 7.21%.

General Fund Expenditures Comparison of Budget to Actual



As is reflected above, actual General Fund budgeted expenditures were 10.54% below the final budget. This decrease in planned spending was due to the uncertainty related to the state budget cuts. Each department of the County was asked to hold expenditures to the necessities until the uncertainties at the state level could be resolved. Significant variances from the final budget for fiscal year 2003 include the following:

- General Government expenditures were below budget primarily due to the position of the Public Information Officer remaining vacant for ten months of the fiscal year.

- Judicial Services expenditures were below budget primarily due to significant staff turnover experienced by the Clerk of Court and several positions remaining unfilled for long periods.
- Although Public Safety was below budget in total, expenditures for the Regional Jail were over budget due to the Jail passing state cuts through to the County in the form of a retroactive increase in per diem charges.
- Finance and Planning expenditures were significantly below budget because several planned economic development incentives have not yet been awarded.
- Non-Departmental expenditures were significantly below budget because the County was not forced to use the appropriated reserves for unexpected events.

PROPRIETARY FUNDS

The County currently operates seven Enterprise Funds and one Internal Service Fund. The Enterprise Funds provide the means to account for the operations of the County-operated utilities, the two sanitary districts, the County solid waste disposal activity, and the revitalization of Yorktown. The Internal Service Fund is used to account for the operation of the centralized motor vehicle pool.

Sanitary District No. 2 has no revenues and the expenses consist entirely of depreciation expense related to the assets of the fund. The Solid Waste and Sewer Utility Funds collected \$3,006,241 and \$6,811,936, respectively through charges for services. The Sewer Utility Fund is self-supporting, however the County continues to supplement the Solid Waste Fund through transfers from the General Fund to support the County's curbside recycling program. The Yorktown Revitalization Fund has been established to account for the revenues and expenses of the Yorktown Waterfront when it opens for business in the spring of 2005, and the fund currently holds the Waterfront assets. The Internal Service Fund collects its revenues through charges for services imposed on the various County Departments to which fleet vehicles are assigned. The fund's expenses relate directly to the maintenance and depreciation of the County's fleet of vehicles.

The Enterprise Funds in the aggregate had an increase in net assets during the fiscal period of \$4,172,238, and the Internal Service Fund reported an increase in net assets of \$226,878. The net assets for the Enterprise Funds and Internal Service Fund were \$78,981,936 and \$3,257,200, respectively, at the end of the fiscal year. Given the size and nature of the County's proprietary funds, these net assets are prudent and adequate.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the County's investment in capital assets for its governmental and business type activities amounts to \$121.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, investment in historical artwork, land improvements, buildings and improvements, infrastructure, equipment, and vehicles. The County does not own its roads and they are therefore not included in the capital assets. In addition, the School Board owns all school buildings and the related debt is County debt. For this reason, the assets are reflected in the statement of net assets of the component unit School Board, while the related debt is reflected in the statement of net assets of the primary government.

Governmental Funds

Capital Assets, net of depreciation

	Governmental Activities	Business-Type Activities	Total
Land	\$ 8,234,032	\$ 3,993,814	\$ 12,227,846
Construction in progress	2,060,145	13,128,590	15,188,735
Investment in historical artwork	-	175,588	175,588
Land improvements	1,473,690	8,088	1,481,778
Buildings and improvements	21,646,405	4,356,870	26,003,275
Infrastructure	2,375,893	57,871,216	60,247,109
Equipment	2,075,937	576,164	2,652,101
Vehicles	3,375,211	414,043	3,789,254
Total	<u>\$ 41,241,313</u>	<u>\$ 80,524,373</u>	<u>\$ 121,765,686</u>

Capital Project Funds

The Capital Project Funds are used by the County to account for the financing sources used to acquire and construct major capital projects for the general government. A major source of funding for the capital projects is transfers from the General Fund.

County Capital Fund

For fiscal year 2003, \$4 million was transferred to the County Capital Fund from the General Fund. During the year, capital project expenditures of \$3.5 million included the following:

- Transportation improvements and VDOT projects
- Public safety equipment
- Communications system
- Renovations to the Bruton and Tabb fire stations

Yorktown Capital Improvements Fund

For fiscal year 2003, \$100,000 was transferred to the Yorktown Capital Improvements Fund from the General Fund. During the year, capital project expenditures of approximately \$900,000 included the following:

- Design of the commercial area
- Renovation of the Freight Shed
- Utility undergrounding
- Streets, walkways and drainage
- Shoreline stabilization
- Riverwalk
- Land exchange with the National Park Service

Additional information on the County's capital assets can be found in note 5 beginning on page F-15 of this report.

Long-Term Debt

At the end of the fiscal year, the County had total outstanding debt of \$57,484,287. Capital leases, claims payable, landfill closure costs, the School Board's note payable to the VRS, and compensated absences are not included in these figures.

	Governmental Activities	Business-type Activities	Total
Bonds payable	\$ 46,810,000	\$ 9,484,287	\$ 56,294,287
Literary loans	1,190,000	-	1,190,000
Total	<u>\$ 48,000,000</u>	<u>\$ 9,484,287</u>	<u>\$ 57,484,287</u>

On November 7, 2002, the County issued \$7,715,000 general obligation bonds with an average interest rate of 4.475% through the Virginia Public School Authority. The net proceeds from the bonds were used to renovate Bruton High School. The accounting for this transaction was recorded in the County's Debt Service - Education Fund.

Under Virginia state law, school boards do not have the authority to issue debt. Therefore, all school debt is issued by and is a liability of the County. In fiscal year 2003, the County paid debt service of \$2,747,780 and \$2,213,587 for education related principal and interest, respectively, through the County's Debt Service - Education Fund.

The County continues to maintain an excellent bond rating for local governmental jurisdictions of its type and size. The rating assigned by Standard & Poor's Corporation is AA and Moody's is Aa2.

In November 2003, the County will be issuing \$4,100,000 in General Obligation Bonds sold through the Virginia Public School Authority. The bonds will be used to fund a portion of the School Capital Budget specifically the renovation of Queens Lake Middle School.

Additional information on the County's long-term debt can be found in note 6 beginning on page F-21 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND TAX RATES

The County's staff and Board of Supervisors considered many factors when developing the fiscal year 2004 budget. Local revenue, which includes property tax, was expected to grow from fiscal year 2003 to fiscal year 2004 by 5.8%. Increased property values reflected in the reassessment, construction activity and increased revenues from business and commercial operations are the primary reasons for this growth. State and Federal revenues to the General Fund, which comprise about 6.2% of the total, are currently expected to remain at approximately the same level as the current budget. However, the state is in a fiscal crisis, and there may be some reduction in state funding. Combined local, state and Federal revenue is expected to rise 4.85%. These factors were considered in preparing the County's budget for fiscal year 2004.

The fiscal year 2004 approved budget for the General fund is \$86,309,063, a 4.85% increase over the fiscal year 2003 budget. New budget initiatives are as follows: an increase of 4.85% in local funding for the School Operating Budget; the addition of 5 new full-time equivalent personnel working in the general government; a compensation package based on the Human Resources Division's annual benchmarking study that maintains both the County's and the School Division's pay plans' competitive positions in the regional market by including an across-the-board market adjustment of 2.0%; an additional \$250,000 allocation for economic development to help attract new business and commerce to the County as well as to support existing businesses; funding to support the drainage improvements program approved by the Board of Supervisors during the fall of 2002; funding in the Enterprise Funds to continue significant water and sewer expansion projects in areas such as Marlbank and Skimino Hills (as the Board is aware, Utility Enterprise Funds have no effect on General Fund expenditures or the tax rate); a Capital Improvements Program which continues ongoing projects such as the replacement of equipment, funds maintenance and renovation projects of County facilities and park areas, and provides continuing implementation of classroom technology and the renovation of Queens Lake Middle School; and continues the Yorktown Revitalization Projects funded through the portion of the transient occupancy tax which the General Assembly has designated for tourism and tourism related expenditures. Although approximately \$2 million in internal budget cuts were made to balance the budget, the fiscal year 2004 budget did not raise any tax rates or fees.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Marycarol C. White, CPA, Director of Financial and Management Services, P. O. Box 532, Yorktown, VA 23690, telephone (757) 890-3700.